

# Principal Funds

## Principal LifeTime 2035 Instl (LTIUX)

Mutual Fund: Multi Strategy Target Date 2031-2035



Returns as of 12/31/2014

**Product Overview**

Status	Open
Benchmark	S&P Target Date 2035
Discipline	Active
Process	Miscellaneous

**Administrative Information**

Ticker	LTIUX	Total Assets	\$1.1 Billion
Minimum		Shareclass Assets	\$774.3 Million
Manager		Team # of Securities	22
Tenure	4.9 Yrs	Avg Turnover	13%
Inception	2/2008		

**Firm Overview**

Principal Management Group ("Principal") serves as the manager for the fund. Principal, based in Des Moines, IA, is an indirect subsidiary of Principal Financial Group Inc. and has managed mutual funds since 1969. Principal Financial Group is a publicly-owned company that provides 401k plans, mutual funds, retirement plans, investments, life insurance, and health insurance.

Principal Global Investors, LLC ("PGI") is an indirect wholly owned subsidiary of Principal Life Insurance Company and a member of the Principal Financial Group. PGI manages equity, fixed-income, and real estate investments primarily for institutional investors. The firm is headquartered in Des Moines, Iowa and manages this product.

**Objective**

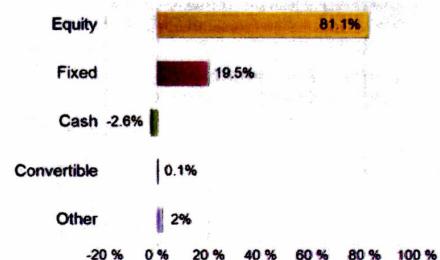
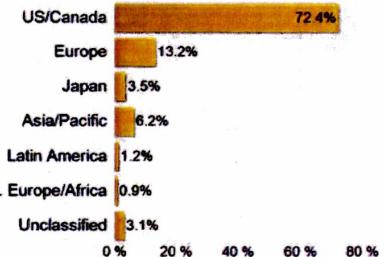
The Principal LifeTime 2035 Fund is one of multiple Target Date age-based portfolios that are targeted toward investors with varying expected retirement dates. The Fund seeks to offer a professionally managed investment program designed to adjust to investors' changing financial needs prior to retirement and the management of those assets after retirement. The Fund rebalances to an increasingly conservative portfolio based on expected retirement in the year 2035.

**Process**

The Principal LifeTime Funds are comprised of 11 Target Date funds ("TDFs"). The strategic asset allocation of each is determined by the investment team, which uses various methodologies to build efficient and diversified portfolios. The TDFs are managed with three main purposes: provide substantial asset allocation, maintain diversification by re-balancing back to long-term strategic weights, and select best-of-breed investment managers that can produce alpha in inefficient areas of the market. In regards to asset allocation, Principal has exposure to 11 distinct areas of the global equity and fixed income markets. This includes real assets and exposure to alternative investments. Principal will re-balance the Funds monthly but will also be pro-active over short-term periods if market action warrants re-balancing. Principal will make 3-4% tactical over/underweights based on 18-36 month asset class projections to add additional value if certain asset classes do not look attractive based on valuations, interest rates, available risk premiums, or insight from active managers.

**Personnel**

Jeff Tyler, CFA, serves as Vice President and Portfolio Manager at Principal Global Investors. Prior to joining the firm in 2011, he was Chief Investment Officer at EXOS Partners, a financial advisory firm in San Francisco. From 1988 - 2009, Mr. Tyler was a member of the quantitative equity group and developed the Asset Allocation team at American Century. Mr. Tyler earned a BA degree from the University of California at Santa Barbara and an MS from Northwestern University.

**Asset Allocation** 12/31/2014**Region Analysis** 12/31/2014

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# Principal Funds

## Principal LifeTime 2035 Instl (LTIUX)

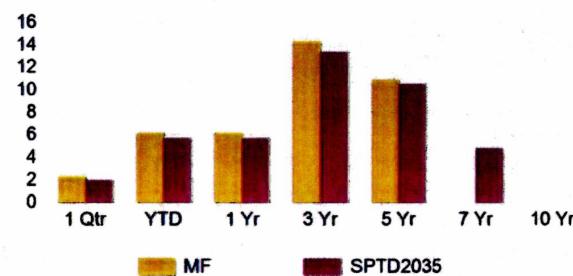
Mutual Fund: Multi Strategy Target Date 2031-2035



Returns as of 12/31/2014

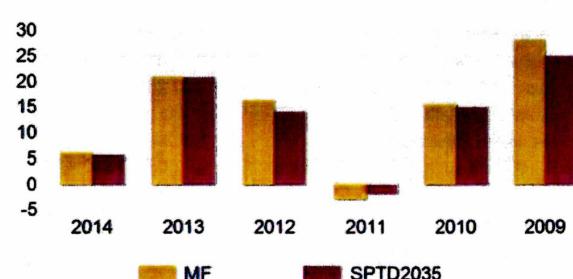
## Trailing Performance

	MF	SPTD2035
Q4 2014	2.32	2.01
YTD	6.15	5.69
1 Year	6.15	5.69
3 Year	14.32	13.38
5 Year	10.90	10.50
7 Year	-	4.80
10 Year	-	-
Since Inception	5.86	-

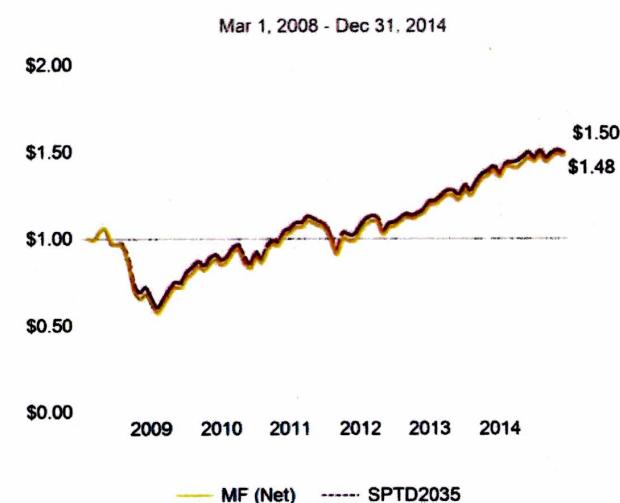


## Calendar Performance

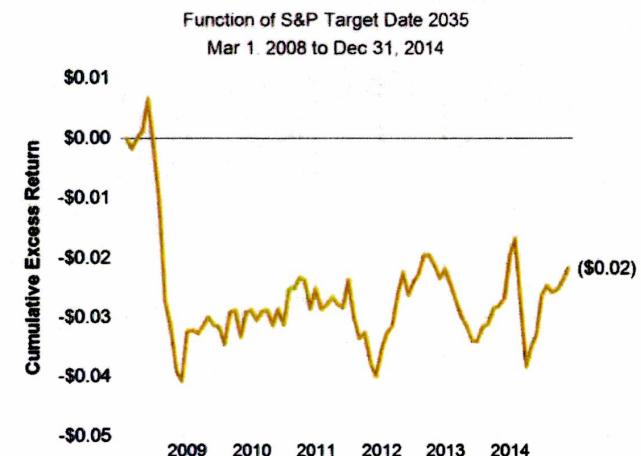
	MF	SPTD2035
2014	6.15	5.69
2013	20.97	20.84
2012	16.36	14.12
2011	(2.87)	(1.71)
2010	15.59	15.02
2009	28.17	24.99
2008	-	(32.60)
2007	-	6.75
2006	-	15.92



## Portfolio Growth



## Cumulative Excess Return



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# Principal Funds

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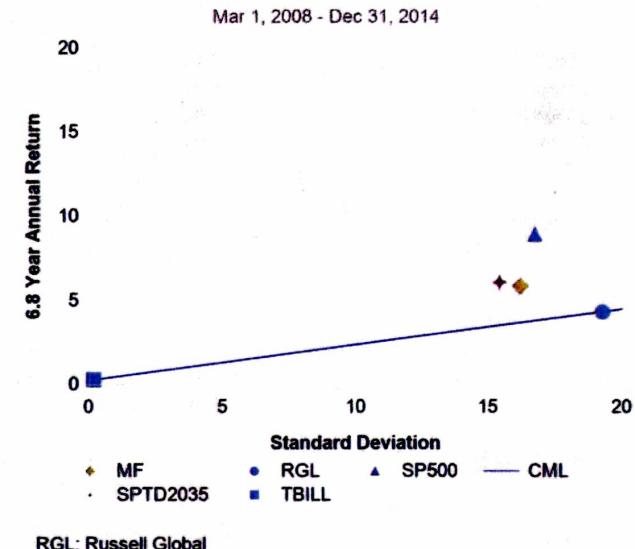
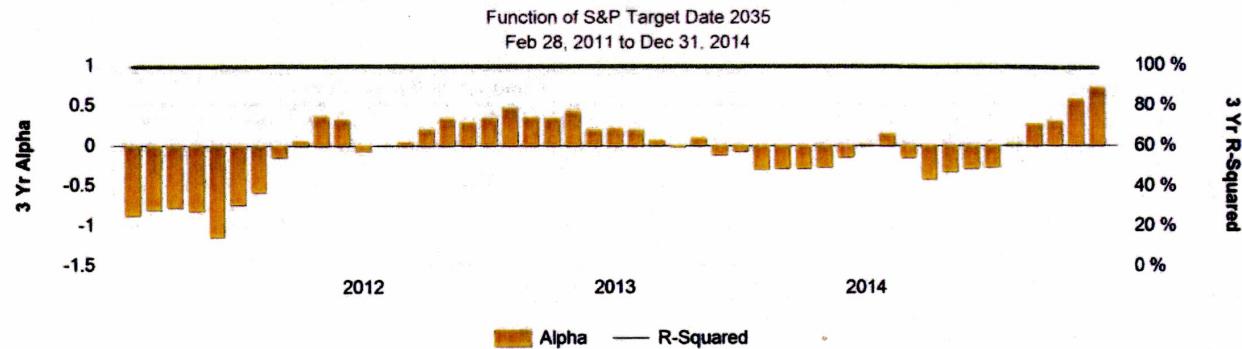
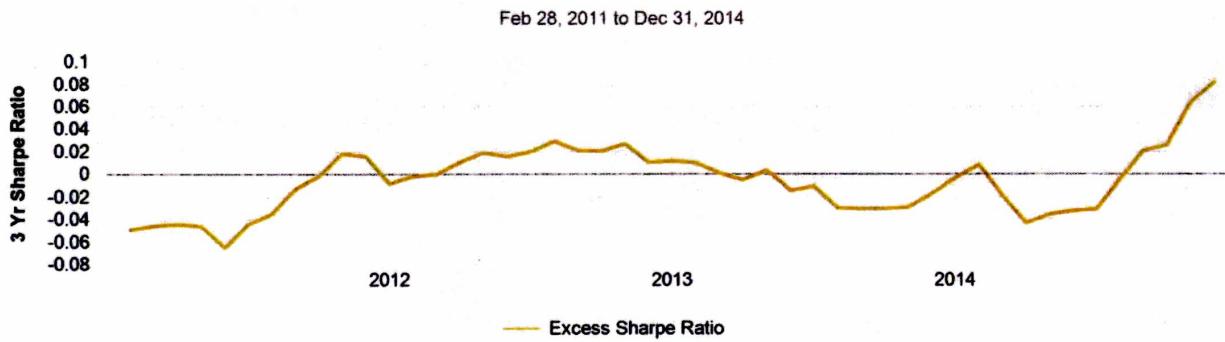
Mutual Fund: Multi Strategy Target Date 2031-2035



Returns as of 12/31/2014

**6.83 Year Risk/Reward Statistics**

3/1/2008 to 12/31/2014	MF	SPTD2035
Beta	1.04	1.00
Annualized Alpha	(0.40)	0.00
R-Squared	0.99	1.00
Standard Deviation	16.20	15.45
Correlation	1.00	1.00
Risk Adjusted Return	0.36	0.39
Sharpe Ratio	0.34	0.38
Sterling Ratio	0.13	0.14
Treynor Ratio	5.33	5.79
Batting Average	0.55	
Up Months	47	52
Up Capture	102.80%	100.00%
Down Months	34	30
Down Capture	103.33%	100.00%
Best 1 Month Return	10.15	9.70
Worst 1 Month Return	(17.38)	(16.33)
Best 12 Month Return	50.25	47.33
Worst 12 Month Return	(42.06)	(38.85)
Maximum Drawdown	(45.24)	(42.14)
Tracking Error	1.58	0.00
Information Ratio	(0.14)	

**Capital Market Line****Risk/Return****Excess Sharpe**

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**Principal LifeTime 2035 Instl (LTIUX)**

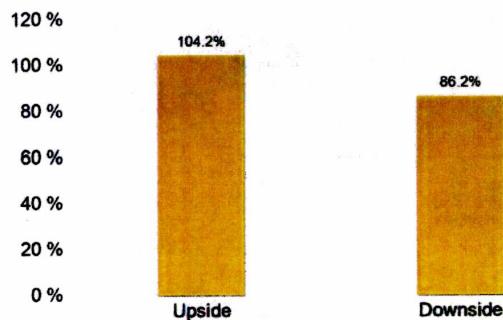
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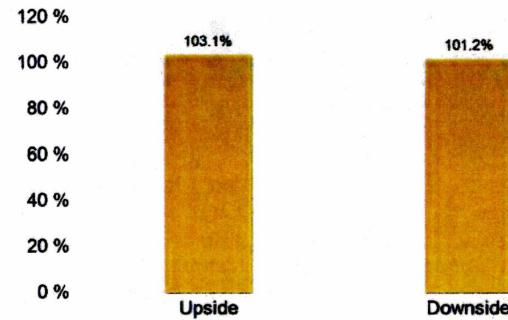
**Three Year Capture Ratio**

Function of S&P Target Date 2035  
Jan 1, 2012 to Dec 31, 2014



**Five Year Capture Ratio**

Function of S&P Target Date 2035  
Jan 1, 2010 to Dec 31, 2014



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# Principal Funds

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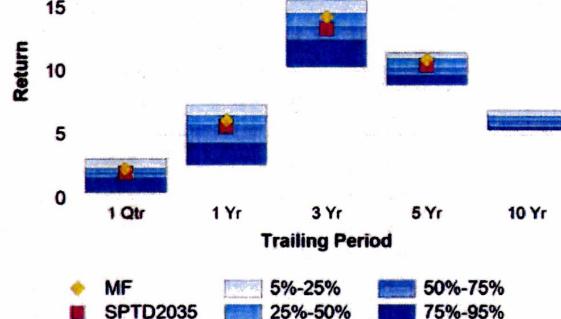
Returns as of 12/31/2014

## Universe Comparison - Trailing Periods\*

MF	Q4 2014	1 Year	3 Year	5 Year	10 Year	
Return	2.32	6.15	14.32	10.90		20
Percentile	29	38	32	29		15
SPTD2035	Q4 2014	1 Year	3 Year	5 Year	10 Year	
Return	2.01	5.69	13.38	10.50		10
Percentile	52	52	54	42		5
Universe **	Q4 2014	1 Year	3 Year	5 Year	10 Year	
5th Percentile	3.13	7.42	15.67	11.47	6.93	0
25th Percentile	2.38	6.52	14.63	11.01	6.50	1 Qtr
50th Percentile	2.05	5.81	13.53	10.26	6.12	1 Yr
75th Percentile	1.62	4.37	12.51	9.69	5.63	3 Yr
95th Percentile	0.53	2.64	10.36	8.98	5.43	5 Yr
Number of Products	36	36	36	30	8	10 Yr

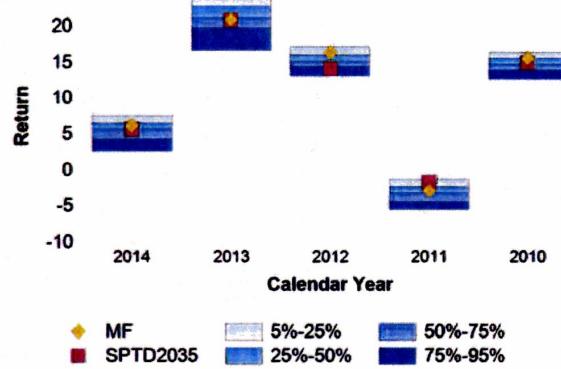
\* Quarterly Returns through 12/31/2014

\*\* Target Date 2035 Universe



## Universe Comparison - Calendar Year

MF	2014	2013	2012	2011	2010	
Return	6.15	20.97	16.36	(2.87)	15.59	25
Percentile	38	54	19	42	25	20
SPTD2035	2014	2013	2012	2011	2010	
Return	5.69	20.84	14.12	(1.71)	15.02	15
Percentile	52	56	80	13	43	10
Universe *	2014	2013	2012	2011	2010	
5th Percentile	7.42	24.91	17.16	(1.32)	16.34	-5
25th Percentile	6.52	22.80	16.03	(2.35)	15.59	0
50th Percentile	5.81	21.16	15.21	(3.12)	14.79	2014
75th Percentile	4.37	19.83	14.47	(4.43)	13.96	2013
95th Percentile	2.64	16.69	13.11	(5.48)	12.68	2012
Number of Products	36	35	32	25	19	2011



\* Target Date 2035 Universe

Evaluating the performance of a manager's portfolio and its respective benchmark versus the universe of managers with similar investment styles provides insight as to how a manager's performance ranks both recently and historically among a group of peers. For example: If a manager's performance ranks in the 5th percentile, that manager has performed better than 95% of all managers in the select universe. If a manager is in the 95th percentile, that manager has only outperformed 5% of all managers in the select universe.

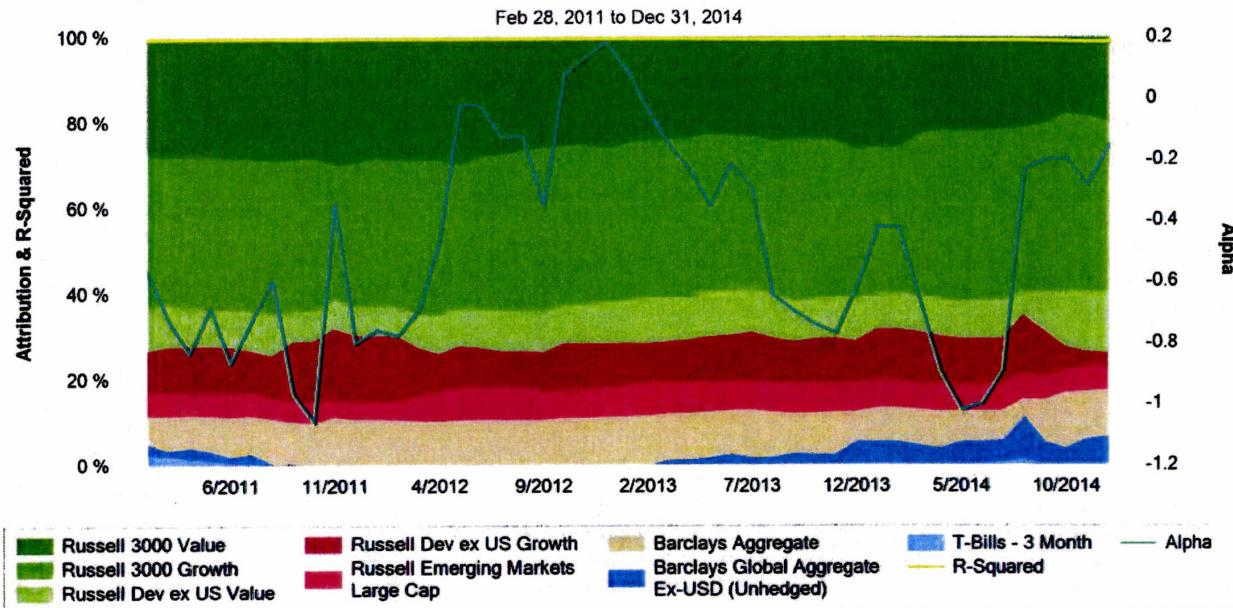
**Principal Funds**  
**Principal LifeTime 2035 Instl (LTIUX)**

Mutual Fund: Multi Strategy Target Date 2031-2035



Returns as of 12/31/2014

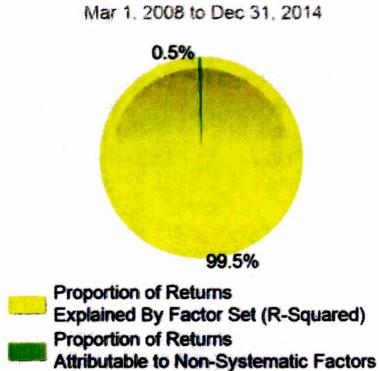
**Rolling 3 Year Balanced Style Chart**



**Style Attribution (Mar 1, 2008 to Dec 31, 2014)**

Russell 3000 Value	25.74%
Russell 3000 Growth	37.31%
Russell Dev ex US Value	9.96%
Russell Dev ex US Growth	8.76%
Russell Emerging Markets Large Cap	5.91%
Barclays Aggregate	8.38%
Barclays Global Aggregate Ex-USD (Unhedged)	3.67%
T-Bills - 3 Month	0.26%
Annualized Alpha	(0.89)
Beta	1.00
R-Squared	0.995

**Style Attribution**



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# Principal Funds

## Principal LifeTime 2035 Instl (LTIUX)

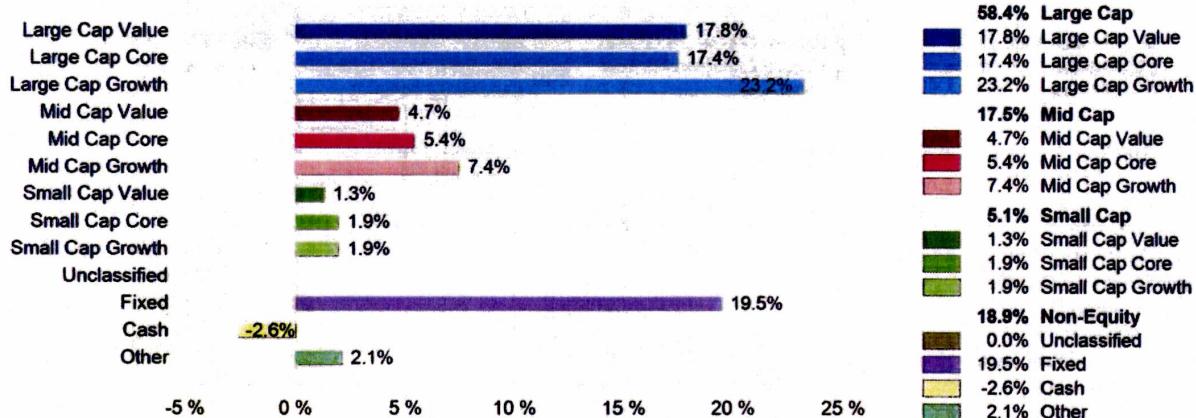
Mutual Fund: Multi Strategy Target Date 2031-2035



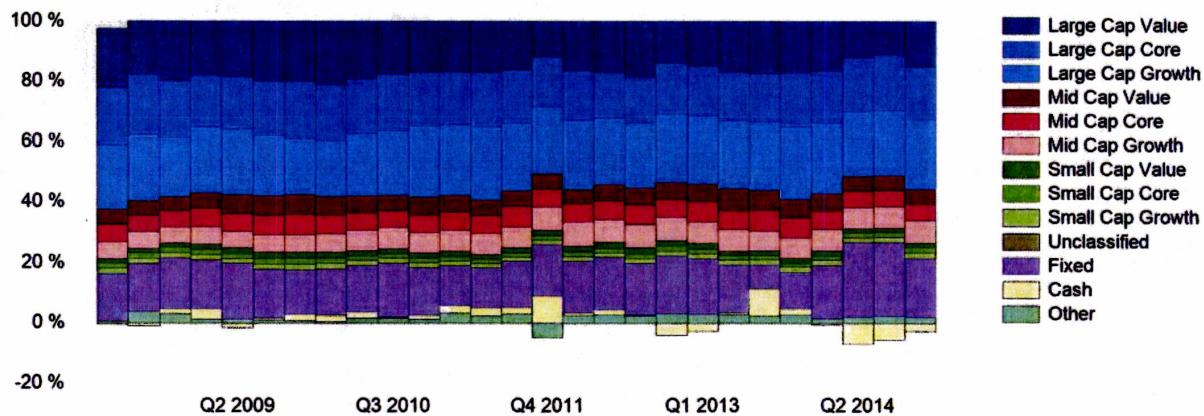
Returns as of 12/31/2014

### Portfolio Based Style Analysis 12/31/2014

#### Style Concentration 12/31/2014



#### Historical Style Concentration



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# Principal Funds

## Principal LifeTime 2035 Instl (LTIUX)

Mutual Fund: Multi Strategy Target Date 2031-2035



Returns as of 12/31/2014

### Analyst's Opinion

Revised Date: 3/25/2013

### Summary

Principal Global Investors' ("Principal") LifeTime Target Dates Fund ("TDF") series ranges from 2010-2055, and also includes an Income Fund. The firm has roughly \$18 billion in TDF assets and has been managing this series of TDFs for over 10 years, which is the longest track record in the peer group. The manager employs a multi-asset class, multi-style, and multi-manager approach to managing its series of TDFs. Across the retirement dates, the portfolios will have exposure to traditional (equities and fixed income) and non-traditional (commodities, natural resources, and real estate) asset classes. A differentiating aspect relative to the peer group is the series' exposure to alternatives (hedge fund strategies), which we believe is positive, as the exposure further diversifies the TDFs. Principal will use both passive and active (internal and external) investment options when constructing its TDFs. We like that the manager will use active management in the most inefficient asset classes (small cap, emerging markets, high yield fixed income, and alternatives) and use passive options in more efficient asset classes such as large equities and core fixed income. This helps from an expense standpoint and aids in eliminating holdings overlap by having too much exposure to more efficient asset classes where active managers have less room to add alpha without taking on excess risk. Jeff Tyler, former head of Asset Allocation at American Century, joined Principal in 2011 to manage the Lifetime Funds and we believe his experience and approach to portfolio construction will be additive to risk-adjusted performance over time. However, given the changes Mr. Tyler has made at both the portfolio construction and asset allocation level, Envestnet | PMC believes shareholders should focus on performance and peer group metrics that coincide with Mr. Tyler joining the firm in March 2011. Overall, Envestnet | PMC believes this suite of TDF offerings is "best in class" due to the range of options available to retirement investors, semi-open architecture approach to portfolio construction, use of distinct alternative strategies, and experienced management team.

### Performance and Style

Recent performance, coinciding with Mr. Tyler join the firm in March 2011, should be the starting point for analyzing the LifeTime Funds. While long-term performance is not meaningless, Mr. Tyler has changed the GlidePath used to manage all the TDFs (it's now more conservatively structured), added exposure to hedge fund strategies, and more broadly diversified the suite of TDFs. Due to the recent changes, we believe longer term performance is not as relevant when making comparisons against the peer group. Going forward, performance across the suite of TDFs will be heavily influenced by the various allocations to non-traditional and alternative asset classes. For example, if this is a drag, peers with less exposure or none at all may outperform Principal. While this is a risk, the opposite is also true, and we prefer the manager's approach to diversification which should result in better risk-adjusted performance over a full market cycle. It should also be noted that the LifeTime Funds, on average, have more exposure to equities than the peer group, which will also influence performance. Envestnet | PMC also believes active management, especially in inefficient markets, will aid performance over short and long term time periods as well. Given the manager's approach to asset allocation (more equities and alternatives) and bias towards investing with underlying managers that employ diversified strategies that benefit from fundamentals being in favor (as opposed to high turnover, systematic, and aggressive strategies), we expect performance to be best when such variables are in favor and when fixed income markets lag.

Style classification, across various TDF offerings, is best understood via the manager's GlidePath methodology. In regards to the LifeTime Funds, the glide-path is based on the "Through" framework. This approach is based on the notion that the amount of equity exposure should not stop decreasing and remain at a static amount at an individual's retirement. The opposite philosophy is referred to as the "To" framework and is utilized by many managers in the peer group. Principal continues to decrease equity exposure 15 years after retirement. This approach leads to slightly more exposure to equities relative to the peer group at each Fund's inception, but will eventually lead to less exposure to equities after the retirement date. Principal advocates the "Through" framework due to their belief that investors have different asset allocation needs, even after retirement, which is the main reason why equity exposure doesn't stay the same. The LifeTime Funds have more equities in the early portion of the glide-path due to risk, in general, being easier to bear earlier in individuals' life. While this theory is practical in its understanding, we are pleased that Principal has done studies that show the efficacy of their glide-path methodology. Indeed, Principal has concluded that most people overspend during their retirement and that having more equity exposure will be beneficial to an individual once they do retire. Exposure to non-traditional (commodities, natural resources, and real estate) and alternative (hedge fund strategies) asset classes is a differentiating aspect from a style perspective relative to the peer group, which we believe will provide a more diversified portfolio for shareholders. The LifeTime Funds will have exposure to both internal (Principal investment teams) and external (AQR, LA Capital, and PIMCO) investment managers which will influence style characteristics, as firms that only use internally managed strategies (Fidelity, Blackrock, and T. Rowe Price) are more susceptible to their style across various product offerings being out of favor. Overall, investors need to understand and be comfortable with the manager's "Through" glide-path methodology, use of asset classes outside of equity and fixed income, and exposure to various investment managers before investing in the LifeTime Funds.

### Firm, People, and Process

Principal is a wholly-owned indirect subsidiary of the Principal Financial Group (ticker: PFG) and is the sub-advisor to many of the Principal Funds, including the LifeTime Funds. As a publicly traded company, equity based incentives have been made available to employees of PFG, including a broad based stock option program and a discounted price stock purchase plan. Through these programs, PFG employees hold approximately 3% of the outstanding shares. Although we are disappointed with the lack of meaningful employee ownership, we believe the compensation structure for investment personnel is more than adequate to attract, retain, and incentivize talented personnel. For example, the firm was able to recruit Jeff Tyler to manage its suite of TDFs. Principal manages \$335 billion across an array of investment products, roughly \$18 billion of which is managed in the LifeTime Funds. There are approximately one million participating investors in the LifeTime Funds. The manager's suite of TDF portfolios range from 2010-2055 and also includes an Income Fund. We like the broad range of product availability which should bode well for investors seeking TDF solutions. Principal has the longest overall track record in the TDF universe dating back to 2001. Principal is the fourth largest TDF manager by assets and the largest TDF manager that employs a semi-open architecture approach to managing its series of TDFs. Overall, Envestnet | PMC has a positive opinion of the firm, and believe it has the necessary resources and infrastructure to manage the LifeTime Funds going forward.

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**Principal Funds**  
**Principal LifeTime 2035 Instl (LTIUX)**

Mutual Fund: Multi Strategy Target Date 2031-2035



*Returns as of 12/31/2014*

Lead Fund Manager Jeff Tyler has only been at Principal since March 2011. Given that Mr. Tyler was previously the Lead Fund Manager and Creator/Architect of American Century's LIVESTRONG suite of TDFs that have the best long-term risk-adjusted performance of the peer group, we are pleased he is managing the LifeTime Funds. Mr. Tyler is supported by Co-Fund Managers Randy Welch and James Fennessey who are responsible for manager research and due diligence. Messrs. Welch and Fennessey lead a team that is responsible for selecting managers and for conducting on-going due diligence on those managers. We like that the team has dedicated resources to research and due diligence and that Mr. Tyler can spend his time working on capital market assumptions, portfolio construction, and asset allocation. Our only concern is the size and experience of the analyst team, which consists of three manager research and due diligence professionals that average four years of relevant experience. Overall, Envestnet | PMC has a positive opinion of the investment team, but believes it would benefit from more staff dedicated to manager research.

The investment process for Principal's series of TDFs is founded on three basic principles: provide substantial asset allocation, maintain diversification by rebalancing back to long-term strategic weights, and select best-of-breed investment managers that can produce alpha in inefficient areas of the market. In regards to asset allocation, Principal has exposure to 11 distinct areas of the global equity and fixed income markets. This includes real assets and exposure to alternative investments. Given that asset allocation is widely known to be the long-term driver of returns, we are pleased that Principal is pro-active in adding exposure to new asset classes and is not limited to investing in asset classes that are only available via internally managed strategies. Re-balancing plays a key role within the investment process and Principal will make 3-4% tactical over/underweights based on 18-36 month asset class projections to add additional value if certain asset classes do not look attractive based on valuations, interest rates, available risk premiums, or insight from active managers. Principal will re-balance the Funds monthly but will also be pro-active over short-term periods if market action warrants re-balancing. This approach makes sense and we are pleased that the manager has some flexibility to be tactical in re-balancing rather than using a purely static approach. Given that Principal utilizes a semi-open architecture approach to portfolio construction there is a dedicated team of analysts monitoring current and prospective managers utilized in the TDFs. The manager selection decision relies heavily on the subjective review of qualitative factors relating to the firm's organization, investment philosophy and process, and resources. The objective of the monitoring process is to ensure that current and prospective investment managers retain the organizational traits and investment process characteristics that has successfully served investors in the past, while remaining repeatable in the future given the current market environment. While the investment process for the LifeTime Funds has several moving parts, Envestnet | PMC believes it's well-structured, flexible enough for changing market conditions, and repeatable given the experience of the senior members of the investment team.

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**Disclosures**

**General Disclosure**

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**Performance Disclosure**

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**Benchmark Disclosure**

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# Principal Funds

## Principal LifeTime 2040 Instl (PTDIX)

Mutual Fund: Multi Strategy Target Date 2036-2040



Returns as of 12/31/2014

### Product Overview

Status	Open
Benchmark	S&P Target Date 2040
Discipline	Active
Process	Miscellaneous

### Administrative Information

Ticker	PTDIX	Total Assets	\$4.3 Billion
Minimum		Shareclass Assets	\$2.9 Billion
Manager		Team # of Securities	21
Tenure	5.3 Yrs	Avg Turnover	12%
Inception	3/2001		

### Firm Overview

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### Objective

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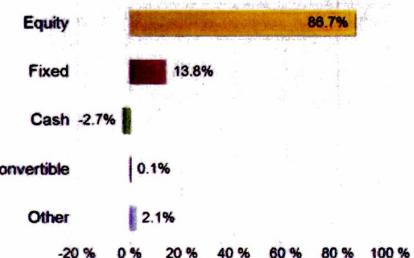
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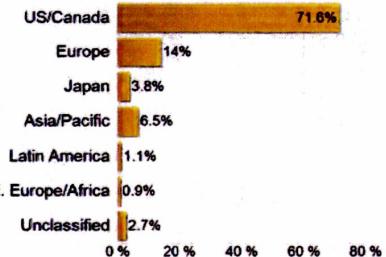
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### Asset Allocation 12/31/2014



### Region Analysis 12/31/2014



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## Principal Funds

### Principal LifeTime 2040 Instl (PTDIX)

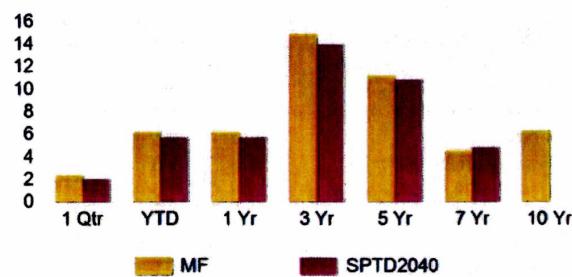
Mutual Fund: Multi Strategy Target Date 2036-2040



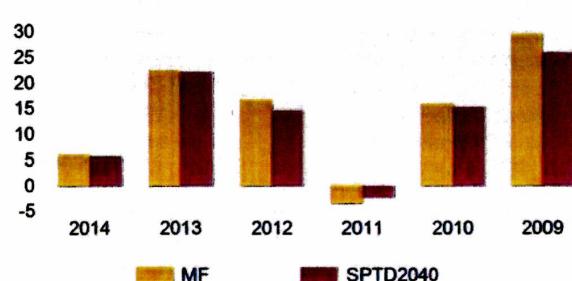
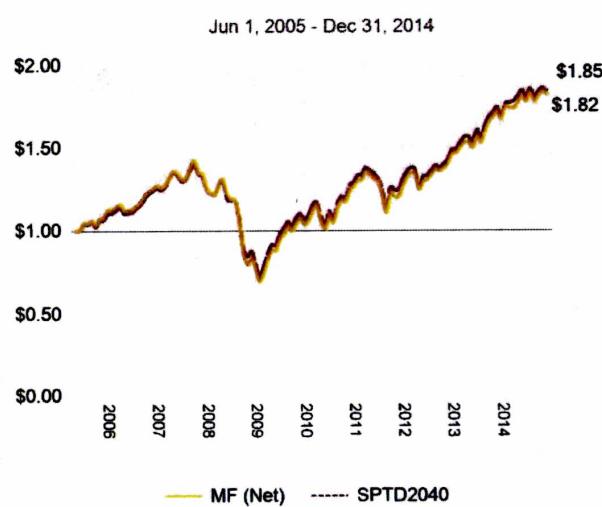
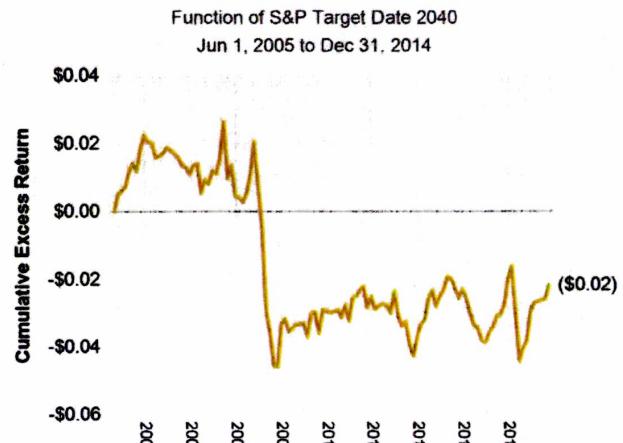
Returns as of 12/31/2014

**Trailing Performance**

	MF	SPTD2040
Q4 2014	2.33	2.04
YTD	6.11	5.69
1 Year	6.11	5.69
3 Year	14.84	13.96
5 Year	11.14	10.81
7 Year	4.48	4.80
10 Year	6.22	-
Since Inception	6.15	-

**Calendar Performance**

	MF	SPTD2040
2014	6.11	5.69
2013	22.36	22.10
2012	16.66	14.69
2011	(3.38)	(2.17)
2010	15.85	15.38
2009	29.47	25.97
2008	(38.10)	(34.00)
2007	6.97	6.98
2006	15.61	16.40

**Portfolio Growth****Cumulative Excess Return**

All performance presented is net of fees (NAV). Please see disclosure at the end of this report for additional important information. FOR ONE-ON-ONE PRESENTATIONS ONLY. ©2015 Envestnet. All Rights Reserved.

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# Principal Funds

## Principal LifeTime 2040 Instl (PTDIX)

Mutual Fund: Multi Strategy Target Date 2036-2040

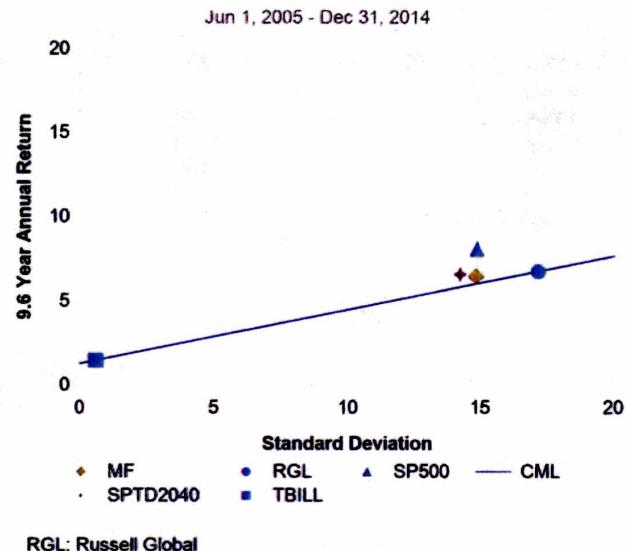


Returns as of 12/31/2014

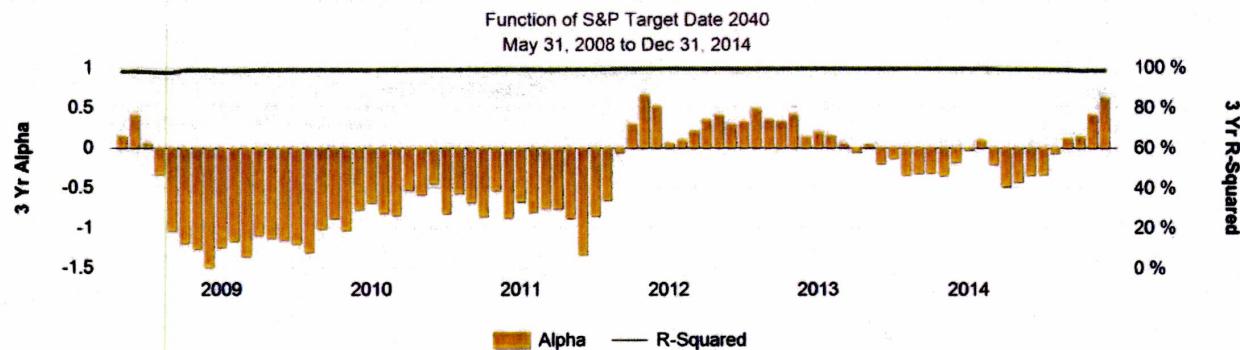
## 9.58 Year Risk/Reward Statistics

6/1/2005 to 12/31/2014	MF	SPTD2040
Beta	1.04	1.00
Annualized Alpha	(0.25)	0.00
R-Squared	0.99	1.00
Standard Deviation	14.83	14.24
Correlation	0.99	1.00
Risk Adjusted Return	0.44	0.46
Sharpe Ratio	0.34	0.36
Sterling Ratio	0.13	0.14
Treynor Ratio	4.80	5.10
Batting Average	0.57	0.57
Up Months	70	75
Up Capture	102.15%	100.00%
Down Months	44	40
Down Capture	102.64%	100.00%
Best 1 Month Return	10.51	10.09
Worst 1 Month Return	(17.89)	(16.77)
Best 12 Month Return	51.95	49.44
Worst 12 Month Return	(43.09)	(40.32)
Maximum Drawdown	(50.86)	(47.67)
Tracking Error	1.61	0.00
Information Ratio	(0.08)	

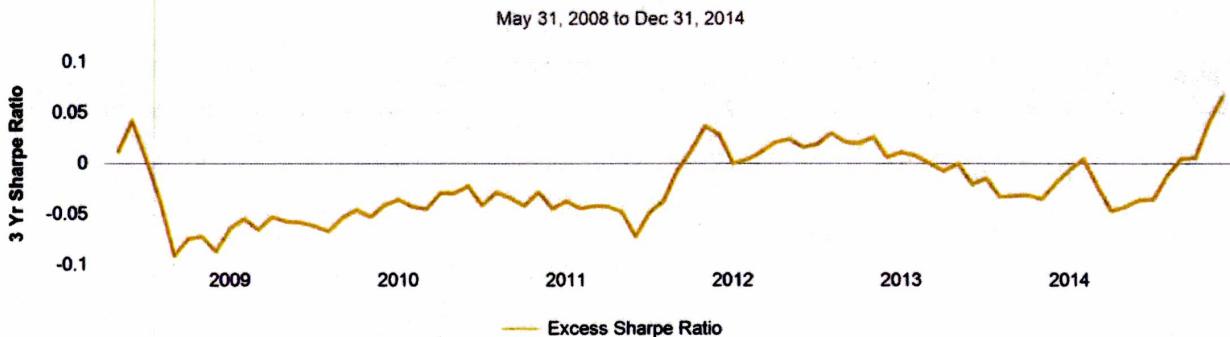
## Capital Market Line



## Risk/Return



## Excess Sharpe



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